OFFICES OF THE COUNTY EXECUTIVE

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County Executive

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Chief Administrative Officer

July 25, 2025

Members of the Montgomery County Council

I am pleased to present to you the Quarterly Report of the Montgomery County Employees' Retirement System ("ERS") for the quarter ended March 31, 2025. This quarterly report is designed to assist you in understanding the current status of the ERS. This report was prepared pursuant to the provisions of the Montgomery County Code.

History

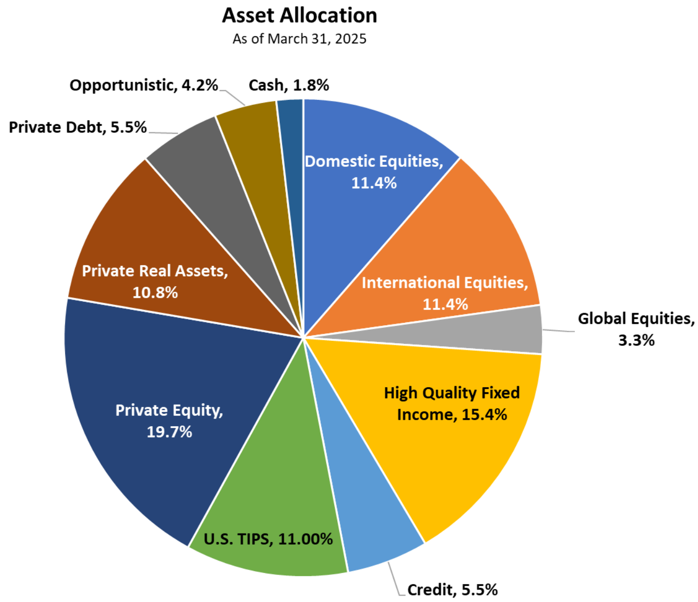
The Employees' Retirement System was established in 1965 as a cost-sharing multiple-employer defined benefit pension plan providing benefits to the employees of Montgomery County and other agencies or political subdivisions who elect to participate. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and employees who elect to participate in the Guaranteed Retirement Income Plan ("GRIP"). There were approximately 7,185 ERS and GRIP active members and 6,835 retirees participating in the ERS as of March 31, 2025.

Performance Results

The ERS gained 1.10% for the quarter, lagging the performance of the policy benchmark by 0.58%. The ERS was up 6.09% for the twelve-month period ending March 31, 2025, trailing the policy benchmark by 1.23%, which was up 7.32%. The one-year gross return places the ERS' performance in the second quartile of comparable pension funds constructed by the Board's consultant, NEPC. The Fund had an annualized 3.22% return over the last three-year period and 10.08% for the five-year period (ending March 31, 2025)—the Fund was in the fourth and second quartile vs. the peer universe for the three and five-year periods, respectively. **Over the longer term, the Fund has delivered first-quartile annualized returns of 7.44% over the last ten-year period.**

We estimate that the funded status of the ERS was 91.9% based on a market value of assets and 95.9% on an actuarial (smoothed) value of assets as of March 31, 2025. The actual funded status will be affected by the ERS' membership experience, as well as demographic and economic changes and may be higher or lower when calculated by the actuary during the next valuation.

The following chart displays the asset allocation for the ERS on March 31, 2025.



Major Initiatives

During the quarter, the ERS closed one private real estate fund.

Capital Markets and Economic Conditions

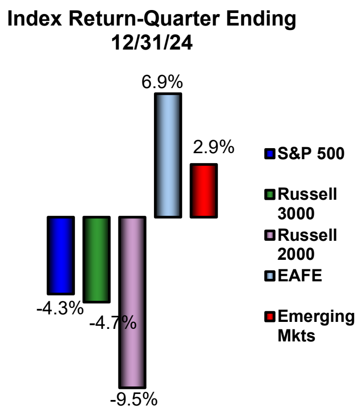
The U. S. economy contracted in the first quarter of 2025 for the first time in three years, driven by a sharp surge in pre-tariff imports, softening consumer spending, and a decline in government spending. According to the third estimate released by the Bureau of Economic Analysis (BEA), real gross domestic product (GDP) decreased at an annual rate of 0.3% in the first quarter, following a 2.4% gain in the fourth quarter of 2024. Imports, which are subtracted in the calculation of GDP, surged at an annualized rate of 41.3% in the first quarter, as businesses rushed to stockpile goods ahead of the implementation of tariffs. Meanwhile, consumer spending fell from 4.0% to 1.8%, and government spending decreased at an annual rate of 1.4% in the same period.

The labor market remained stable in early 2025. By the end of Q1, the unemployment rate held steady at 4.1%, unchanged for the third consecutive quarter. During this period, the U. S. economy added 499,000 nonfarm payroll jobs, a slight increase from the 495,000 added in Q4 2024.

In the first quarter of 2025, the Consumer Price Index (CPI) inflation rate was 2.3% for all items, according to the Bureau of Labor Statistics. Core inflation, which excludes food and energy, stood at 2.8%, according to the US Bureau of Labor Statistics. The Personal Consumption Expenditures Price (PCE) Index, which measures inflation (or deflation) across various consumer expenses and reflects changes in consumer behavior, rose by 3.6% in the first quarter, up from a 2.4% increase in the fourth quarter of 2024.

In the housing market, single-family housing starts continued to weaken, falling to a seasonally adjusted annual rate of 925,000 units in March, down 2.6% from the previous quarter. In contrast, multifamily starts remained resilient, reaching 362,000 units, a 3.4% increase over Q4. The median existing-home sale price ended the quarter at $403,700, representing a 2.7% year-over-year increase, underscoring sustained, yet slowing, home price growth amid tight inventory and steady demand.

Public Equity Markets: In the first quarter of 2025, the broad U.S. equity market, as measured by the Russell 3000 Index, declined 4.7%. Within this, the Energy sector performed the best, while the Consumer Discretionary and Information Technology sectors performed the worst. Defensive sectors like Utilities, Healthcare, Telecommunications, and Energy saw positive returns. Mid and small capitalization companies were particularly impacted, with the Russell 2000 Index declining 9.5%. Our combined domestic equity portfolio posted a loss of 5.4%, underperforming the negative 4.7% return of the Russell 3000 Index.



International developed markets significantly outperformed their U.S. counterparts, rallying 6.9% for the quarter. European stocks posted strong returns as investors rotated away from U.S. equities toward Europe. This shift reflected investors' perception of stronger global growth potential and Europe's relatively attractive valuations compared to U.S. equities. Japanese stocks, on the other hand, were down for the quarter, weighed down by weak performance in technology and exporter stocks. The weakest markets during the quarter were Denmark and New Zealand.

EM equities posted positive quarterly returns, driven by China's strong performance and a weaker U.S. dollar. Chinese stocks rallied thanks to strong earnings by the country's technology companies, and the government's unveiling of pro-business policies and fiscal policies designed to boost consumer spending. Brazilian stocks posted positive returns due to strong corporate earnings, particularly in the energy and consumer staples sectors. South Korean markets were up due to strong performance in the semiconductor sector and record-high cosmetics exports. Indian equities slid during the quarter, driven by weak corporate earnings, particularly in the information technology and financial sectors. Our combined international equity performance was up 4.5%, underperforming the 4.8% return recorded by the benchmark. Our global equity allocation posted a 0.5% loss, outperforming the 1.3% decline of the MSCI ACWI Index.

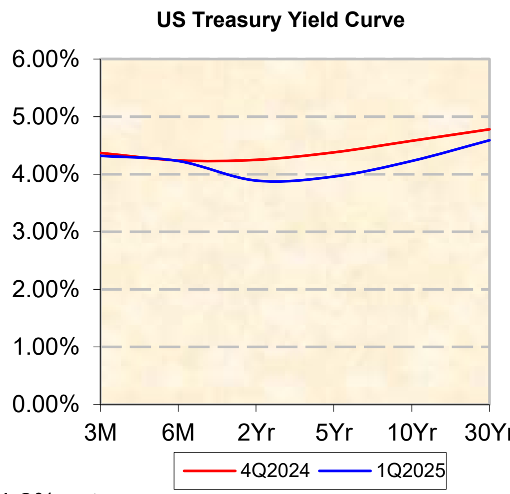
Private Equity: During the first quarter, a total of 632 funds reached their final close, securing $141 billion in commitments. Relative to the prior quarter, the number of funds raised declined 14%, while the amount of aggregate capital remained consistent. On a global basis, North America accounted for 61% of the number of funds raised and 46% of the aggregate capital raised, a drop relative to the prior quarter. U.S. buyout deal activity remained increased during the first quarter. Relative to the prior quarter, the number of U.S. buyout deals rose 3% to 1,166, deal volume jumped 44% to $101 billion, and the average deal size rose 66% to $987 million. Industrials and consumer discretionary were the most robust sectors during the quarter, each representing roughly 18% of U.S. buyout deal value. Buyout exit activity declined relative to the prior quarter, with the number of exits dropping 8% to 223, the aggregate exit value decreasing 21% to $46 billion, and the average exit size falling 4% to $1.1 billion.

U.S. venture fundraising activity in Q1 decreased compared to the prior quarter. While the number of funds raised rose 7% to 220, the aggregate capital raised fell 27% to $13 billion, and the average fund size dropped 46% to $62 million. U.S. venture dealmaking activity picked up slightly during the quarter. The number of U.S. venture deals remained consistent at 1,584, while aggregate deal volume increased 4% to $69 billion, and the average deal size increased 17% to $61 million.

During the quarter, our private equity managers called a combined $16.1 million and paid distributions of $8.8 million. Our current allocation to private equity is 19.68%, with a market value of $974.8 million. From its 2003 inception through December 31, 2024, the total private equity program (including fund-of-funds) has generated a net internal rate of return of 13.5% versus a 13.9% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps). The direct private equity program, which began in 2009, has generated a 21.2% return versus 17.5% for the benchmark.

Hedge Funds: For the quarter, industry-wide hedge funds rose by 0.5% based on the HFRI Composite Index. On a sub-strategy basis, the Event-Driven Index lost 0.3%, the Relative Value Index advanced 1.5%, the Equity Hedge Index decreased 0.2%, and the Macro Index rose by 0.4%. The System's diversifying hedge funds recorded a gain of 2.1% versus a gain of 0.9% for the Conservative Index. The diversifying portfolio outperformance is primarily attributable to strong selection within the global macro and quant sectors.

Fixed Income: The yield curve shifted down as Treasury yields decreased across various maturities. The yield on the 2-year note maturities decreased by 36 bps to 3.9%, while the 10- and 30-year bond maturities decreased by 35 and 19 bps, respectively. By the end of the quarter, the 10-year Treasury yield was 4.2%, whereas the 30-year Treasury yield was 4.6%. The high-yield portfolio's performance for the quarter was a gain of 1.1%, outperforming the 0.9% gain of the Merrill Lynch High Yield II Constrained Index. The long-duration portfolio's return for the quarter was a gain of 4.7%, outperforming the custom long-duration benchmark's 4.2% performance. The emerging market debt portfolio advanced 2.7%, outperforming the 2.2% gain of the JPM EMBI Global Diversified benchmark. The intermediate government portfolio's 2.5% return versus the BBG U.S. Intermediate Government benchmark, the intermediate corporate portfolio's 2.3% return versus the BBG U.S. Intermediate Credit benchmark, and the TIPS portfolio's 4.2% return versus the BBG U.S. TIPS benchmark, all were in line with their benchmark returns.



Private Debt: Private debt funds raised $58.9 billion, which is 2.5 times higher than the $24 billion raised in the first quarter of 2024. Europe attracted the most capital, where nine funds raised $31 billion, followed by 17 funds in North America raising $27.5 billion. Direct lending funds continued to lead fundraising in the first quarter, with 12 funds raising $30.2 billion, followed by seven distressed debt funds raising 20.5 billion. In March 2025, there were 1,293 funds targeting $447 billion of capital. The majority of these funds continued to be direct lending-focused, targeting 60.1% of the aggregate capital. 17% of the private debt funds were raising more than $1 billion of capital. Dry powder was over $500 billion.

During the quarter, our private debt managers called a combined $10.0 million and paid distributions of $10.8 million. Our current allocation to private debt is 5.5%, with a market value of $271.7 million. From 2013 through December 31, 2024, the private debt program generated a net internal rate of return of 11.6% versus an 8.6% return for the dollar-weighted public market equivalent benchmark (ICE BofA Merrill Lynch High Yield Master II Constrained + 300 bps).

Private Real Assets: During the quarter, private real estate returns advanced, supported by positive cash flows and a small capital appreciation. Real estate prices were up 1.3%, 1.2% from income, and 0.1% from property appreciation. All property sectors produced positive returns during the quarter. Office, Industrial, Residential, and Retail, advanced by 0.9%, 1.3%, 1.3%, and 1.8%, respectively. Real estate fundraising advanced as 209 funds raised $39.1 billion compared to 240 funds raised $17.7 billion in the prior quarter. Infrastructure fundraising accelerated as 29 funds raised $60.2 billion compared to 30 funds raised $20.4 billion for the previous quarter.

During the quarter, our private real asset managers called a combined $31.3 million and paid distributions of $9.6 million. Our current allocation to private real assets is 10.8%, with a market value of $536.7 million. From its 2006 inception through December 31, 2024, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 6.2% versus a 7.7% gain for the long-term benchmark (CPI plus 500 bps).

Additions

The primary sources of additions for the ERS include contributions from members and employers and investment income. The following table displays the source and amount of additions for the quarter ending March 2025 and the fiscal year to date.

Employees' Retirement System
Contributions and Investment Income (millions)

	Qtr 3/31/2025	Fiscal YTD
Employer Contributions	$ 19.7	$ 60.5
Member Contributions	9.9	37.6
Net Investment Income (Loss)	(73.8)	227.3
	$ (44.2)	$ 325.4

Deductions

The deductions from the Employees' Retirement System include the payment of retiree and survivor benefits, participant refunds, and administrative expenses.

Employees' Retirement System
Deductions by Type (millions)

	Qtr 3/31/2025	Fiscal YTD
Benefits	$ 83.2	$ 248.3
Refunds	6.8	17.4
Administrative Expenses	1.1	3.4
	$ 91.1	$ 269.1

Sources: BlackRock, Bloomberg, MSCI, NCREIF, Northern Trust, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Russell, Albourne, JP Morgan, Goldman Sachs, Preqin, Pitchbook, Federal Reserve, Marathon Asset Management, Standard and Poor's.

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION

March 31, 2025

Assets	
Equity in pooled cash and investments	$ 1,677,760
Investments:	
Northern Trust	4,954,275,099
Aetna	488,855
Fidelity - Elected Officials Plan	1,052,301
Fidelity - DRSP / DROP	8,567,617
Total investments	4,964,383,872
Contributions receivable	7,735,339
Prepaid expenses / Other assets	20,521
Total assets	4,973,817,492
Liabilities	
Benefits payable and other liabilities	2,182,236
Net position restricted for pensions	**$ 4,971,635,256**

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Quarter Ended March 31, 2025

	Quarter	Fiscal YTD
Additions		
Contributions:		
Employer	$ 19,685,059	$ 60,513,973
Member	9,884,517	37,632,159
Total contributions	29,569,576	98,146,132
Investment income (loss)	(71,927,509)	237,595,210
Less investment expenses	1,899,861	10,290,131
Net investment income (loss)	(73,827,370)	227,305,079
Total income (loss)	(44,257,794)	325,451,211
Deductions		
Retiree benefits	64,195,656	191,105,281
Disability benefits	15,615,099	47,082,809
Survivor benefits	3,403,685	10,114,162
Refunds	6,777,887	17,444,886
Administrative expenses	1,080,193	3,406,907
Total deductions	91,072,520	269,154,045
Net Income (Loss)	**(135,330,314)**	**56,297,166**
Net position restricted for pensions		
Beginning of period	**5,106,965,570**	**4,915,338,090**
End of period	**$ 4,971,635,256**	**$ 4,971,635,256**